

**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**TOWN OF WYOMING**  
**MUNICIPAL STREET AID**  
**SPECIAL INVESTIGATION**

**FIELDWORK END DATE: DECEMBER 5, 2008**

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State of Delaware  
Office of Auditor of Accounts  
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**At a Glance**

*Working Hard to Protect YOUR Tax Dollars*

#### Why We Did This Review

The Office of Auditor of Accounts (AOA) received the following Hotline allegations regarding the Town of Wyoming (the Town):

1. The Town is improperly using Municipal Street Aid (MSA) funds to pay employees' salaries.
2. The Town has a lack of internal controls and does not present financial reports to the Town Council.

#### Background

The Town of Wyoming is located in Kent County, in the Dover Metro area. The Town received \$55,340.03 in MSA funds from the State of Delaware for the period of July 1, 2006 through June 30, 2008.

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#### TOWN OF WYOMING MUNICIPAL STREET AID

#### What We Found

##### Allegation #1: Unsubstantiated

AOA reviewed 100% of MSA fund activity for FY07 and FY08. Disbursements during that period totaled \$77,241.74.

Title 30, Delaware Code, Chapter 51, Subchapter III, Section 5165(a)(2) details the allowable uses of MSA funds, including police salaries, street lighting and signs, and maintenance of police equipment. Per AOA's review of MSA disbursements, the Town used MSA funds for allowable purposes except for one disbursement of \$34.41. The Town was unable to provide support for this transaction, therefore, AOA could not determine if the payment was an allowable use of MSA funds.

In addition, AOA found the following:

- Improper MSA reporting. AOA discovered numerous errors on the FY07 and FY08 MSA reports submitted to the State of Delaware.
- Internal control weaknesses, including inadequate support for transactions, missing bank reconciliations, and unnecessary bank fees, were noted for the MSA funds.
- The Town made six lump sum transfers totaling \$68,116.48 to the General Fund without adequate documentation to support the amounts.

##### Allegation #2: Partially Substantiated

AOA obtained Council meeting minutes for the period July 2006 through September 2008. The Treasurer's Reports were accepted and approved by Council until April 2008 but were not approved through September 2008 due to the lack of detail and discrepancies noted. The Treasurer's Reports presented at the Council meetings consisted only of bank account balances and contained no detail of expenditures incurred or revenues collected for the preceding period. Beginning in July 2008, the Treasurer began providing a Profit and Loss statement in addition to the account balances.

AOA assessed the Town's internal controls through inquiry of Town officials and testing of general fund expenditures. The Town does not have written policies and procedures over the expenditure/revenue process and lack of oversight has led to missing support, unnecessary late penalties, and improper coding of transactions.

#### What We Recommend

The Town should:

- Require adequate, detailed support for all transactions including transfers.
- Strengthen internal controls, including:
  - Implement a management review and approval process;
  - Segregate duties; and
  - Strengthen reconciliation controls.

**Please read the complete report for a full list of findings/recommendations and to review the Town's response to our findings.**

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# AUDIT AUTHORITY

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Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

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# ALLEGATIONS AND BACKGROUND

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## **ALLEGATIONS**

The Office of Auditor of Accounts (AOA) received the following Hotline allegations regarding the Town of Wyoming (the Town):

- The Town is improperly using Municipal Street Aid (MSA) funds to pay employees' salaries.
- The Town has a lack of internal controls and does not present financial reports to the Town Council.

## **BACKGROUND**

The Town of Wyoming is located in Kent County, in the Dover Metro area. The Town received \$55,340.03 in MSA funds from the State of Delaware for the period of July 1, 2006 through June 30, 2008.

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# OBJECTIVES, SCOPE, & METHODOLOGY

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## **OBJECTIVES**

The objectives of the investigation were:

- To determine the propriety of the use of MSA funds.
- To determine if Town Council members received monthly financial reports and if the reports were accurate.
- To develop recommendations for improving controls within the Town.

## **SCOPE**

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

The scope of the investigation was July 1, 2006 through June 30, 2008 (State of Delaware Fiscal Years 2007 and 2008).

## **METHODOLOGY**

The investigative approach included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.

# CONCLUSIONS

Allegation	Results of Testing	Conclusion
<p>The Town is improperly using MSA funds to pay employees' salaries.</p>	<p>AOA reviewed 100% of MSA fund activity for FY07 and FY08. Disbursements during that period totaled \$77,241.74.</p> <p>Title 30, Delaware Code, Chapter 51, Subchapter III, Section 5165(a)(2) details the allowable uses of MSA funds, including police salaries, street lighting and signs, and maintenance of police equipment. Per AOA's review of MSA disbursements, the Town used MSA funds for allowable purposes except for one disbursement of \$34.41. The Town was unable to provide support for this transaction, therefore, AOA could not determine if the payment was an allowable use of MSA funds.</p> <p>In addition, AOA found the following:</p> <ul style="list-style-type: none"> <li>• Improper MSA reporting. AOA discovered numerous errors on the FY07 and FY08 MSA reports submitted to the State of Delaware.</li> <li>• Internal control weaknesses, including inadequate support for transactions, missing bank reconciliations, and unnecessary bank fees, were noted for the MSA funds.</li> <li>• The Town made six lump sum transfers totaling \$68,116.48 to the General Fund without adequate documentation to support the amounts.</li> </ul> <p>See the <i>Findings and Recommendations</i> section for further details.</p>	<p>Unsubstantiated.</p>

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# CONCLUSIONS

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Allegation	Results of Testing	Conclusion
The Town has a lack of internal controls, and does not present financial reports to the Town Council.	<p>AOA obtained Council meeting minutes for the period July 2006 through September 2008. The Treasurer's Reports were accepted and approved by Council until April 2008 but were not approved through September 2008 due to the lack of detail and discrepancies noted. The Treasurer's Reports presented at the Council meetings consisted only of bank account balances and contained no detail of expenditures incurred or revenues collected for the preceding period. Beginning in July 2008, the Treasurer began providing a Profit and Loss statement in addition to the account balances.</p> <p>AOA assessed the Town's internal controls through inquiry of Town officials and testing of general fund expenditures. The Town does not have written policies and procedures over the expenditure/revenue process and lack of oversight has led to missing support, unnecessary late penalties, and improper coding of transactions.</p> <p>See the <i>Findings and Recommendations</i> section for further details.</p>	Partially Substantiated.



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# FINDINGS AND RECOMMENDATIONS

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## **Finding: Improper MSA Reporting**

### ***Criteria***

The *Guidelines for Municipal Street Aid Funding* state that by October 1 of each year the municipality shall, "...submit an accurate and complete annual report to the State Treasurer showing expenditures of MSAF for the preceding fiscal year ended June 30."

### ***Condition***

When comparing the Town's annual MSA report to supporting documentation, AOA found the following:

#### FY 2007

- Beginning fund balance per the annual report was understated by \$1,700;
- Interest income was understated on the annual report by \$42.36; and
- Street light expenditures were overstated by \$1,750.09 on the annual report.

#### FY 2008

- Beginning fund balance per the report was understated by \$7,498.12;
- Interest income was understated on the annual report by \$97.83; and
- Street light expenditures were understated by \$4.77 on the annual report.

### ***Cause***

Potential causative factors include lack of knowledge regarding the annual reporting requirements, using estimated expenditures versus actual, and using an inconsistent and incorrect reporting period.

### ***Effect***

Improper MSA reporting raises questions about the validity of the financial information presented and the credibility of information reported by the Town.

### ***Recommendation***

The Town should ensure that annual reports (a) reflect the proper reporting period, (b) include actual amounts (no rounding or estimates), (c) are supported by adequate documentation, and (d) reviewed prior to submitting to the State Treasurer.

## **Finding: MSA Internal Controls**

### ***Criteria***

According to Section III of the *Guidelines for Municipal Street Aid Funding*, "The following financial records shall be maintained subject to audit: . . . Checkbook, Canceled Checks, Bank Statements, Bank Reconciliations and Deposit Slips." Section III also states, "Bidding documents and invoices to support expenditures made . . ." shall be maintained subject to audit.

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# FINDINGS AND RECOMMENDATIONS

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## ***Condition***

During testing of MSA activity for FY07 and FY08, AOA found the following:

- The Town did not properly maintain support for 3 voided checks. AOA was able to ascertain that the checks did not clear the bank; however, the Town should maintain properly mutilated, voided checks.
- The Town did not maintain support for eight transfers between the MSA checking and savings bank accounts and from the MSA accounts to the General Fund account. The eight transfers totaled \$80,468.50.
- The Town was unable to provide support for 1 transaction for \$34.41. Due to the lack of support, AOA was unable to determine if this transaction was allowable.
- The Town maintained both a MSA Money Market account and a MSA Checking account until June 2007. At this time, the checking account was closed. The Town did not have bank reconciliations for 14 of 24 months for the MSA Money Market account and 9 of 13 months for the MSA Checking account.
- MSA accounts were charged \$49.75 in bank fees related to service charges and insufficient funds.

## ***Cause***

Potential causative factors include failure to obtain deposit slips and transfer receipts, poor record keeping, and lack of reconciliation controls.

## ***Effect***

Failure to maintain support raises questions about the validity of transactions. Poor controls can lead to fraud, waste, and abuse within the Town.

## ***Recommendation***

The Town should:

- Maintain support for all transactions
- Prepare and maintain monthly bank reconciliation and implement a management review process for the reconciliation.
- Maintain MSA funds in a manner to minimize bank fees and related charges.

## **Finding: MSA Transfers**

### ***Criteria***

Section III of the *Guidelines for Municipal Street Aid Funding* states, "Transfers are permitted from the MSFAF account to the municipalities' general fund as a reimbursement, however, only after the payment has been executed from the other funding source. No lump sum or excess transfers shall be acceptable."

### ***Condition***

For the period of July 1, 2006 through June 30, 2008 the Town of Wyoming made six lump sum transfers to the General fund totaling \$68,116.48. The Town indicated this was to cover the cost of police salaries; however, the Town did not maintain documentation to support which salaries were covered by the transfers.

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# FINDINGS AND RECOMMENDATIONS

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## *Cause*

Police salaries for FY07 and FY08 totaled approximately \$248,000. The Town's MSA funds for the same period totaled \$55,340. Since police salaries are an allowable use of MSA funds, and since the total salaries amounted to more than the MSA funds, the Town felt that no supporting documentation was necessary.

## *Effect*

Transferring funds in a lump sum could lead to inaccurate reporting and the use of grant funds for ineligible and/or unsupported expenditures.

## *Recommendation*

The Town should only make transfers for exact amounts. For example, instead of transferring \$5,000 into the General Fund to pay for police salaries, the Town should identify the officers to be paid with MSA funds, calculate their pay for the specific time period, and transfer the exact amount of the salaries. The Town should retain adequate documentation to support the amount being transferred.

## **Finding: Policies/Procedures**

### *Criteria*

The Committee of Sponsoring Organizations of the Treadway Commission's report Internal Control - Integrated Framework (COSO) defines control activities as ". . . the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. . . Control activities usually involve two elements: a policy establishing what should be done and, serving as a basis for the second element, procedures to effect the policy."

### *Condition*

The Town does not have written policies and procedures mandating the transaction process, specifically for MSA funds.

### *Cause*

Lack of knowledge of internal controls.

### *Effect*

The absence of written policies and procedures attributed to the aforementioned MSA findings and could lead to fraud, waste, and abuse of Town funds.

### *Recommendation*

Develop written policies and procedures to ensure standardization in processing procedures and clarification of job duties. These policies and procedures should incorporate key controls such as segregation of duties, management review, reconciliation, etc.

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# FINDINGS AND RECOMMENDATIONS

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## **Finding: Disbursements**

### ***Criteria***

Good accounting controls require proper documentation and oversight.

### ***Condition***

While testing FY07 and FY08 General Fund disbursements, AOA found the following:

- The Town was unable to provide support for 22 transactions totaling \$10,327.41. AOA was able to obtain support from vendors for three of the transactions, but was unable to conclude on the propriety of the remaining transactions (\$8,695.92).
- The Town incurred 2 tax penalties totaling \$274.86 for failure to pay quarterly payroll taxes in a timely manner.
- Two expenditures totaling \$508 were improperly coded in the General Ledger.
- Voided checks were not properly retained.

### ***Cause***

Lack of oversight and operating procedures resulted in unsupported transactions and penalties.

### ***Effect***

The Town incurred \$274.86 in tax penalties that could have been avoided. In addition, unsupported transactions could result in inaccurate financial reporting as well as lead to concerns regarding the integrity of the financial records.

### ***Recommendation***

The Town should:

- Require that support be maintained for all transactions.
- Ensure that payments are made timely, so as to avoid penalties and interest charges.
- Should retain and properly mutilate voided checks by cutting off the signature block and writing "VOID" across the face of the check.

## **Finding: Segregation of Duties**

### ***Criteria***

The Committee of Sponsoring Organizations of the Treadway Commission's report Internal Control - Integrated Framework identifies segregation of duties as a control activity where "Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions. . . An appropriate segregation of duties often appears to present difficulties in smaller organizations, at least on the surface. Even (entities) that have only a few employees, however, can usually parcel out their responsibilities to achieve the necessary checks and balances." Segregation of duties is also identified as a monitoring activity. "Appropriate organizational structure and supervisory activities provide oversight of control functions and identification of deficiencies. . . Also, duties of individuals are divided so that different people serve as a check on each other. This is also a deterrent to employee fraud since it inhibits the ability of an individual to conceal his or her suspect activities."

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# FINDINGS AND RECOMMENDATIONS

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## ***Condition***

The Town's Finance Clerk made three bank transfers by phone from the MSA savings account to the General fund account totaling \$35,116.48. Although the Finance Clerk obtained authorization for the transfers from the Treasurer, the authorization was not documented. The phone transfers do not provide for appropriate segregation of duties.

## ***Cause***

The Town has authorized the bank to allow the Finance Clerk to make transfers between Town accounts but does not allow payments or transfers to outside accounts. This enables the Finance Clerk to make transfers to pay bills and direct deposits for payroll.

## ***Effect***

Transferring funds between accounts without proper authorization could lead to fraud, waste, and abuse of Town funding.

## ***Recommendation***

The Town of Wyoming should ensure that authorization for transfers is appropriately documented. An e-mail approval stating the date of the transfer, amount, from/to accounts, and purpose would be sufficient.

## **Finding: Contracts with Members**

### ***Criteria***

Section 12 of the *Wyoming Town Charter* states, "It shall be unlawful for the said Council to make or enter into any contract for materials, supplies, work or labor for the use and benefit of the Town of Wyoming with any member of the Council or with any partnership in which any member of Council is a partner, or with any corporation in which any member of Council is a director or stockholder or with any firm or company in which any member of Council is peculiarly interested, except with the unanimous consent of the entire Council, and such contract shall be absolutely null and void without such unanimous consent."

### ***Condition***

The Town paid a fence company owned by the Mayor's husband \$1,879.53 to install a fence around the Town's generator without the unanimous consent of Council. Although the Mayor's husband owns the fence company, it is still considered a related party in which a member of Council has a direct interest and would therefore be subject to Section 12 of the Town Charter as stated above.

### ***Cause***

Town officials did not adhere to restrictions placed on interested parties of Council members.

### ***Effect***

Paying an interested party with Town funds could result in impaired judgment, and inefficient or fraudulent use of the Town's funds.

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# FINDINGS AND RECOMMENDATIONS

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## ***Recommendation***

In the future, the Town should not contract with any interested parties as described in Section 12 of the *Wyoming Town Charter*, unless with the unanimous consent of the entire Council.

## **Finding: Approval of Expenditures**

### ***Criteria***

According to Section 19 of the *Wyoming Town Charter*, "Any proposed use of town money, including all bills presented for payment, shall first be submitted to the Town Council for its approval. Each proposed use of town moneys, the amount thereto, and the action taken by the Council on each proposal shall be set forth in the minutes of the meeting."

### ***Condition***

Bills are not presented to the Town Council for approval. The Mayor and Treasurer provide signatures on checks for payment, but the remaining Council members' only knowledge of expenditures are those included in the treasurer's reports at monthly meetings. The treasurer's reports presented from July 2006 through June 2008 were not detailed to include checks written, deposits made, etc.; only current bank account balances were included. As of July 2008, the Treasurer's Reports also included a Profit and Loss Statement from QuickBooks.

### ***Cause***

This occurred because of a failure to comply with the Town Charter, disagreement among Town Council, and an effort to avoid late penalties.

### ***Effect***

Failure to properly approve expenditures could lead to inefficient use of funding, misappropriation of funds, and a lack of public confidence in the Town Council members.

## ***Recommendation***

The Town Council should abide by the procedures set forth in the Town Charter. Treasurer's reports presented to Town Council should be detailed and present all transactions that have occurred since the previous meeting and all proposed transactions requiring Council approval. In the event a late penalty would accrue between the approving dates, another form of communication should be made to obtain approval from each Council member to prevent unnecessary charges.

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# TOWN'S RESPONSE TO FINDINGS

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Several of the recommendations made by your staff are already being utilized and others will be implemented.

Void Checks are currently marked VOID across the face of the check and filed in a folder for review by our auditors.

Monthly bank reconciliations are done in a timely manner and are filed in binders with the reconciliation printout attached. These binders are available for review by any council member who wishes to see them.

Currently, there is only one Municipal Street Aid Account which is an interest-bearing savings account. The checking account has been closed, consequently, there should no longer be any bank charges.

The Town Finance Clerk has designed a voucher for payment of expenses to vendors that do not submit request for payment on their own billhead (i.e. payment for delivery of town newsletter, employee request for reimbursement, etc.). This form indicates the name, date of service, reason for payment and total amount to be paid.

The Finance Clerk has been directed to mark every invoice with the line item number that it will be charged to and to file all invoices in a timely manner to avoid any misplacement or loss of such invoices. This same form will be used to itemize expenses for transfer of funds from MSA to General Fund and can be copied and attached to the annual report sent to the State Treasurer.

Effective January 2, 2009, the Finance Clerk was advised to notify the Treasurer, in writing, of the balance of funds in each account and the amount needed to cover payroll or payable. The Treasurer will then direct the clerk as to which account to transfer funds from. The Treasurer's response will be in writing and should be attached to the bank confirmation and filed for review by the auditors.

One of the charter changes we hope to have passed by June 30, 2009 is changing the fiscal year date to coincide with the State of Delaware. This change was requested last year, along with other charter changes, however, it was omitted in error. It will be presented to General Assembly again this year.

Written policies and procedures in an office of two staff members is a little more difficult to resolve, however, council will discuss this and see what can be done.

At the February 2009 council meeting, a resolution will be presented to council to allow for approval of payment and transfer of funds for payment of regular town bills and expenses until Section 19 of the charter can be changed.

We accept your recommendation of not contracting with any interested parties as described in Section 12 of the Wyoming Town Charter.

Treasurer's reports will continue to be distributed to council. The report will include check register for the month, profit and loss statement and balances in all accounts as per the date of the profit and loss report.

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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

Executive

The Honorable Jack A. Markell, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Mrs. Dale Rife, Mayor, Town of Wyoming  
Council members, Town of Wyoming